



**AGENDA**  
**AD HOC COMMITTEE ON RENTAL AND**  
**LAND CONTRACT HOUSING CONDITIONS**  
**Thursday, January 14, 2016 @ 9:30 a.m. (NOTE TIME)**  
**Council Conference Room, 10<sup>th</sup> Floor, City Hall**

Councilmember Kathie Dunbar, Chair  
Councilmember Judi Brown Clarke, Member  
Councilmember Tina Houghton, Member  
Councilmember Carol Wood, Member

1. Call to Order
2. Minutes:
  - October 2, 2015
  - November 5, 2015
  - December 3, 2015
3. Public Comment
4. Presentations
  - 54- A District Court; Judge DeLuca
  - City Assessing Information
5. Discussion/Action
6. Other
7. Adjourn



DATE 1/14/16

[illegible]



**AD HOC COMMITTEE ON RENTAL AND  
LAND CONTRACT HOUSING CONDITIONS  
Thursday, January 14, 2016 @ 8:30 a.m.**

Council Member Dunbar called the *meeting* to order at 8:30 a.m.

Councilmember Kathie Dunbar, Chair  
Councilmember Judi Brown Clarke, Member  
Councilmember Tina Houghton, Member  
Councilmember Carol Wood, Member

**Others Present:**

Sherrie Boak, Council Office Manager  
Judge DeLuca, District Court  
Gary Caulkins  
Scott Sanford, Code Compliance  
Joe Abood, Deputy City Attorney

**Court Update**

Judge DeLuca introduced himself and stated he was available to answer questions in regards to the specialty court for landlords. The Judge noted that in (2) two days in 2016 they have seen 100 filings, and each judge handles around 40 cases a week. In the terms of land contract forfeiture's there were 78 fillings in 2015. Some of those are repeat offenders. Judge DeLuca informed the Committee that the Assessor has to receive the Transfer Affidavit within 45 days, per State law, which should put the City on notice that the land contract is in the process.

Theoretically a land contract would be a traditional exchange that allows someone to take over property, so they can put equity into it. But the now buyers aren't taking ownership. They need to be educated on this. When they come to courts, then judges need to make the rulings, but they can't prejudge and will have to listen to the proofs. Council Member Dunbar agreed that there is an education component that needs to be addressed, and there are also landlords who prey on those they know don't understand. With the repeat offenders how many on the same property, which the Judge could not answer because they are not logged by property. The Court does not police just resolve the dispute.

Mr. Sanford informed the Committee that under the Rental Registration Code they require they file the land contract with the County or Transfer Affidavit with the City. Code Compliance is looking for someone to put something on the record that there is someone else that has interest in the property.

Council Member Brown Clarke asked the Judge, out of 78 cases, are there trends. Judge DeLuca state typically they default, which means usually the parties don't even show up in

court. His court has seen ordinary land contracts, but others are hand written. If they don't pay there is an assumption they move on and try to sell to the next guy. The Courts only see the contracts if it is contested, but often they are not contested. The Court does not make a ruling on whether a contract is legal, there is no dispute.

Council Member Dunbar informed the Judge of instances where Council Members hear of situations where immigrants are being taken advantage of. Judge DeLuca stated that would be a criminal investigation.

Council Member Dunbar stated that currently the City does not mandate that the new owner file with the County, but we do require the Transfer Affidavit be filed and that requires supporting documentation.

Council Member Wood voiced her concern with the number of homes in the Landbank being sold. Mr. Sanford confirmed that out of all the Landbank homes over 4-5 years, there have not been a lot of issues with them, maybe 1-2 and he is working with Eric Schertzing on those.

Judge DeLuca noted to the Committee that the Transfer Affidavit clearly states if it is not filed by State Law there is a \$200 penalty.

Council Member Dunbar suggested obtaining a list of all land contracts and reaching out to them to educate them.

Mr. Caulkins asked if filing the affidavit would require the City to lower their taxes. It was confirmed this form does not lower the taxes that would be the Homestead form.

Judge DeLuca asked if the immigrants are receiving any direction from social agencies. Council Member Wood informed the Judge that the agencies provide assistance for up to 6 months. Council Member Dunbar noted there are also resources at MSU.

Council Member Dunbar referenced information that was provided by Eric Schertzing from the last meeting and asked the Committee to review for the next meeting.

No one from Assessing was present at this meeting to address questions.

Council Member Wood asked Council Member Dunbar to invite representatives from Refugee Services to a meeting to let the Committee what tools they would need to better educate.

### **Minutes**

Action on minutes will be taken at the next meeting.

The next meeting will be February 11, 2016 at 8:15 a.m. and Assessing will be asked to provide what "script" they use at their counter when a new property owner drops off their paperwork. Also if they can provide a report on the tracking of types of property sales.

### **ADJOURN**

Adjourn at 9:30 a.m.

Submitted by,

Sherrie Boak, Recording Secretary

Lansing City Council

Approved by the Committee on March 24, 2016



**AD HOC COMMITTEE ON RENTAL AND  
LAND CONTRACT HOUSING CONDITIONS  
Friday, October 2, 2015 @ 9:00 a.m.**

Council Member Dunbar called the meeting called to order at 9:05 a.m.

Councilmember Kathie Dunbar, Chair  
Councilmember Judi Brown Clarke, Member  
Councilmember Tina Houghton, Member  
Councilmember Carol Wood, Member

No Law present

**Others Present:**

Sherrie Boak, Council Office Manager  
Scott Sanford, Code Compliance  
Richard Williams, Realtor and Landlord  
Kathleen Francis, Downtown Neighborhood Association  
Gary Calkins, Rental Property Owners Association  
Elaine Womboldt

**Discussion/Action:**

**Update on Committee Objective & Goals**

Council Member Dunbar provided the overview of the Committee which was established during this year's budget process where questions were raised on rentals, quality of rentals, etc. The Resolution was read "NOW BE IT RESOLVED, the Lansing City Council hereby establishes the Ad Hoc Committee on Rental and Land Contract Housing Conditions with the purpose of conducting a City-wide outreach, group facilitation, surveys, and public input process to engage renters, refugees, people with disabilities, low-income residents, landlords and other residents in meaningful discussions and development of solutions to address rental housing conditions in Lansing including rental property re-inspections and unregistered rental property investigations." Council Member Dunbar acknowledged there are other Committees already that have jurisdiction over some the scenarios, such as Development & Planning and also Public Safety. So to not duplicate the work, this Committee will focus on a scope that is narrower than what is established in the resolution. One item this Committee was created for was to advocate for more code enforcement officers; which the City has now hired. Now with new staff, they need to have them trained and in the field, then the Committee can survey of how they are working. It was verified with Chief Talifarro that would be around February 2016, and Council wants to give them time to get on the ground, trained and then get update numbers from them.

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Public Comment

Mr. Caulkins had no comments.

Mr. Williams had no comments, but asked about "land contract" in the resolution. Council Member Dunbar answered by clarifying that those are not registered as rental properties, yet a lot of owners are treating them as rentals, and therefore Council addresses issues with tenant/buyer concerns, and wanted to include for regulating them.

Ms. Francis had no comments but was also interested in the "land contract" items, and looking to build better relationships with code compliance.

Ms. Womboldt asked for more Code Compliance Officers and frequent inspections.

Council Member Dunbar assured everyone again that the delay in the first meeting of this Ad Hoc Committee was to get the new hires in those positions because if they met before they could not know the capacity of what they could do. Council Member Dunbar then asked Mr. Sanford for an update on the letters that are sent to landlords after inspections, the number of current employees and offer some statistics.

Mr. Sanford noted there are currently eight (8) members on staff, which are seven (7) code compliance and one (1) premise officer. The premise officer is a contracted employee from a couple years ago, and they are bringing on 4 additional code compliance. They are looking at dividing the City into quadrants for premise officer enforcement and also create new area for assignment called "Area 5" which will be the eastside (Potter Walsh, Baker Denora). This area is being divided because it is predominately single family residential, over 3200 rentals. As for the office itself, computers and phones are ordered, cars are being dealt with and the department is moving forward to be ready when they are hired.

As for the letters that are currently sent to landlords after inspections, they are for life safety (bad wiring, furnace, water heater) these items do get re-inspections, so any electrical or gas hazard they re-inspect. Mr. Sanford noted that there is a public perception that the citizens feel When Code tags a house the City then owns it, which they don't and are not responsible. They rely on the landlord. So far there have been 317 safety inspections, 2911 rental inspections (buildings) 11,544 premise violations, they have towed 18 cars, 1,060 properties have been mowed, 520 properties were cleaned up of trash, and there were 968 "failure to register" letters sent out. There are 54,000 housing units and 487 miles of road. Officers can't cover everything in the City. Mr. Sanford noted the need for an educational meeting, and he has been speaking to Ingham County Court, political action groups, LBWL, and neighborhood groups informing them of what the City can and cannot do. Land Contracts are a legal sale of the property in the State of Michigan; therefore once Code verifies a legal sale, it is a "home owner property". By verifying they meet the criteria of the County and City Assessor. Departments in the County they work with include the Health Department, Animal Control, Fire, Police, Child and Adult Protection Services. There are areas where people are having issues, but that come back to education on your purchase. There are some situations that are beyond the realm of what the City can legally get involved in. In this calendar year, there have been 21,621 letters written.

Council Member Dunbar informed the group present that unlike the Ingham County Land bank, the City does not become the responsible party; they can only issue fines and enforce the ordinance.

Council Member Wood gave Mr. Sanford a scenario of a house that is red-tagged, then sold on a land contract, if Code then re-inspects even though now a new owner. Mr. Sanford noted they

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do not because those are handled just like a residential sale. However if there was a letter sent on file, we do inspect. They only inspect rentals as part of the program, but if they we get called out on any issue, the housing code does apply. The department continues to work with the Law department on land contract sales and follow up. With the State Real Estate regulations, if you use or sell houses on land contract per year, you are now being required to be licensed as a broker.

Council Member Wood reminded Mr. Sanford of an exchange of information that was requested in the Public Safety Committee meeting with Mr. Schertzing with Ingham County for the real estate auctions. Mr. Sanford stated it was too close to the sale deadline when the information was requested, but his department is working with Ingham County to add stipulations that they cannot rent the homes.

Council Member Wood asked if all the mobile homes were contacted for registering their rentals. Mr. Sanford confirmed he was working with Jim Bennett in Building Safety and letters were sent with no response from Kensington Meadows, but the other two parks have replied. Currently however they do not have a compiled list of the number of rentals in each park.

Council Member Dunbar asked for clarification on when a red tagged home is sold on land contract to the once tenant who is responsible. Mr. Sanford noted the tenant is now the owner and responsible, everything goes with the property.

Council Member Houghton asked Mr. Sanford if the County is made aware of red-tagged properties before the sale. Mr. Sanford confirmed they are working with the County and putting covenants on the property, in an attempt to help, but it is also a contract that the City is now part of. Council Member Brown Clarke asked if at the auction if the red-tagged properties are (\*) so the buyers know. Mr. Sanford noted they don't do the auctions but do send out lists ahead of time, and hope someone would look at it.

The Committee discussed a process that can be added when the new owners verify if taxes are paid, there would also be a box to check that they have verified if there are any code violations or it is a red-tagged property.

Council Member Houghton asked if splitting the City into quads for Code would that coincide with the numbers. Mr. Sanford stated no, they are using Washington as the East/West divider, and Mt. Hope as the North/South divider.

Council Member Dunbar agreed it would be consistent to coincide with Wards; however some Wards are heavier in rentals than others. It was also noted that when doing comparisons on inspections, some areas do inspections yearly on a random choice of one unit per floor; however the City inspects every unit on a floor.

The Committee continued discussions on separating chronic violators, random inspections, and efficiency.

Council Member Wood asked if there was any thought of re-engaging a code position with the NEAT Team and having one person responsible. Mr. Sanford said they would plan to reconstitute, and take red tagged properties away from Code. Mr. Sanford stated that there were 483 red-tags in September, 231 were NEAT Team, are fined.

Council Member Houghton asked for a map of rentals, however Mr. Sanford noted there are so many it would not be clear. Council Member Dunbar asked for the consideration of a map

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which would be beneficial to the Committee so they could see the population of rentals, and also asked Code to consider 6 quadrants instead of 4. Mr. Sanford noted that currently the plan would cover 1,700-1,900 rentals per area. Council Member Dunbar then encouraged the Committee to participate in ride-alongs' with Code Enforcement.

Council Member Wood asked if Code Enforcement coordinate with Section 8 inspections. Mr. Sanford confirmed they did not because they are a different authority and use HUD standards and different codes.

Council Member Brown Clarke asked what Code Compliance needs from Council to address unregistered rental properties. Mr. Sanford listed the steps they take in finding unregistered properties, and noted they have a fine established already of \$500. The Committee agreed they need to educate tenants on confirming if the property is registered. Council Member Dunbar noted that Code Compliance is putting together pamphlets to educate.

Mr. Williams asked to be added to the next agenda to address the tenant piece in land contracts. Council Member Dunbar invited him to speak at the next Committee meeting.

Council Member Dunbar then updated the Committee on recent items being address by Mr. Schertzing at the County which is a county-wide ordinance on land contracts. They would coordinate with this Committee and she will invite Mr. Schertzing to attend another meeting.

Council Member Dunbar concluded by affirming the Committee needs to study the matrix, but with a full capacity of code officers and then address the problems with the resources we have. There needs to be a cost effective process and more feasible process.

#### **Set Meeting Date**

The next meeting date will be Thursday, November 5, 2015 @ 8:30 a.m.

Council Member Wood asked Mr. Sanford to bring the pamphlets he mentioned to the next meeting, and Mr. Sanford noted he would have to wait until they were cleared by the Fire Chief.

#### **ADJOURN**

Adjourn at 10:50 a.m.

Submitted by,

Sherrie Boak, Recording Secretary

Lansing City Council

Approved by the Committee on \_\_\_\_\_





**AD HOC COMMITTEE ON RENTAL AND  
LAND CONTRACT HOUSING CONDITIONS  
Thursday, November 5, 2015 @ 8:30 a.m.**

Council Member Dunbar called the meeting called to order at 8:35 a.m.

Councilmember Kathie Dunbar, Chair  
Councilmember Judi Brown Clarke, Member  
Councilmember Tina Houghton, Member  
Councilmember Carol Wood, Member

**Others Present:**

Sherrie Boak, Council Office Manager  
Scott Sanford, Code Compliance  
Richard Williams, Rental Property Owners Association of Mid-Michigan  
Elaine Womboldt  
Yolanda Bennett, Assistant City Attorney  
Gary Caulkins

**Minutes**

Minutes moved to the next meeting for action.

**Presentations**

Mr. Williams gave a presentation on his Association and what they offer to the public. Included in the Association monthly meetings the 300+ members discuss fair housing, code, land contracts, safety issues, and they also have an attorney on retainer. Most recently they have begun involvement with Neighbor Associations. Mr. Williams highlighted issues they face when dealing with buyers facing credit issues, employment issues, many on public assistance, and some that work for cash so they don't declare their income. There are issues with selling, so they become rentals, but the issues with selling homes are causing some owners to place the homes for rental, and the cost of renting is higher than buying. Mr. Williams then distributed information flyers including home sale details in Old Everett Neighborhood noting the sales, square footage, age, etc. The discussion lead to details on land contracts and recording of those documents to help protect the purchaser. Council Member Dunbar added that Council does not have issues with land contracts, but have the issues with dealing with area landlords who aren't using realtors or title companies. According to a communication with Eric Schertzing, the purchasers and/or sellers are recording the land contract "memorandum" and that is the issue. Mr. Williams then distributed a sample land contract, clarifying that sellers use land contracts because the operation pool is less, it is owner occupied, no rental fees, quick sale, so bank needs to approve, and the owner can get higher price and higher interest rate.

Land contracts can charge up to 11% interest. Mr. Williams encourages his sellers to always require a down payment when using a land contract.

Council Member Dunbar noted to Mr. Williams that the landlords he speaks about are not the examples the Council hears about and is dealing with. Council Member Wood asked Mr. Sanford how many problem landlords does he deal with on a regular basis, and Mr. Sanford confirmed there are 2-3 landlords his office deals with all the time, and they usually get the house back. They do it as a way to avoid registering it as a rental. Council Member Dunbar gave an example given to her by Eric Schertzing with the Ingham County Treasurer office where the seller offers to take the document and never records it, and so the memorandum is currently all that is needed. Mr. Schertzing's office is working on requiring the need of the land contract to record.

Mr. Williams distributed a Dodd-Frank report, spoke about the tax foreclosure program, and results of an MSU study on foreclosures. The group held discussions on land bank homes. Mr. Williams stated that in his discussion with Mr. Schertzing, Ingham County wishes to see the land contracts and are looking at the condition that if they do not get submitted they will hold back the tax exemption status.

Council Member Dunbar spoke about information she was provided by Mr. Schertzing that confirmed there are 500+ land contracts in the County, and the majority are not in the City. There is currently no mandate to record, unless the seller wants the exemption. Council needs to reach the people purchasing letting them know they will receive a tax benefit for recording the land contract. The suggestion as made that the City could apply for an Ameri-Corp position solely dedicated to making sure the County is responsible.

Council Member Houghton suggested working with the utility companies on communications when the new owners put the services in their names.

Mr. Sanford informed the Committee that as of the date of the meeting there were 984 "failure-to-register" this year, and letter was sent. About a 1/3 will come back that are land contracts

Council Member Dunbar noted that the is not the City's job to be administrative, but they can do outreach and education. Currently Ingham County is working on a form of "Frequently Asked Questions", and she had asked to see it before he publishes it.

Mr. Williams encouraged the Committee to recommend to their residents when purchasing a home thru the land bank to visit the home first, and also asked why the City doesn't not currently have a list of rentals on their website. Mr. Sanford stated there are currently 740 pages of rental listings, Council Member Dunbar asked that they research on how to get the information online. Mr. Williams stated he was willing to page for the list of landlords. Council Member Brown Clarke suggested to Mr. Sanford that an electronic file listing the landlord, property address and their address would be sufficient.

Council Member Houghton suggested the Committee create a tool kit or "frequently asked questions". Mr. Sanford stated information on land contracts could be created and placed on the website.

Mr. Caulkins spoke on his concerns with processes, admitting he uses land contracts and only records half of them. This is done because if he gets the homes back he has to take the purchasers to court because there is a recorded document.

Council Member Dunbar asked Ms. Bennett to research the Attorney General opinion if they have to disclose the interest. It was then concluded that the goals for the Committee would include creating, posting and providing an electronic list of rentals, research on how to connect with Fraud Department, obtain the Attorney General opinion, and look into Dodd Frank and what can be done at the local level.

#### **Public Comment**

Ms. Womboldt spoke in support of the information.

Mr. Caulkins informed the Committee that a recent Presidential report states that licensing requirements raise the price of goods and services, and asked the Committee to consider lowering the cost for rental registration and inspections. Council Member Dunbar noted the fees are justified and they could not charge more.

#### **Update on Committee Objective & Goals**

#### **Meeting Date Schedule**

The next meeting was set for December 3, 2015 @ 8:30 a.m.

#### **ADJOURN**

Adjourn at 10:22 a.m.

Submitted by,

Sherrie Boak, Recording Secretary

Lansing City Council

Approved by the Committee on \_\_\_\_\_



**AD HOC COMMITTEE ON RENTAL AND  
LAND CONTRACT HOUSING CONDITIONS  
Thursday, December 3, 2015 @ 8:30 a.m.**

Council Member Dunbar called the meeting to order at 8:30 a.m.

Councilmember Kathie Dunbar, Chair  
Councilmember Judi Brown Clarke, Member  
Councilmember Tina Houghton, Member  
Councilmember Carol Wood, Member

**Others Present:**

Sherrie Boak, Council Office Manager  
Kathleen Francis, DNA  
Julie Powers, Greater Lansing Housing Coalition  
Richard Williams, Rental Property Association  
Kyle Cobe, Ingham County Register of Deeds  
Melissa Quon Huber, Rejuvenating South Lansing  
Eric Schertzing, Ingham County Treasurer  
Scott Sanford, City Code Compliance

**Minutes**

Action on minutes will be taken at the next meeting.

**Presentations**

Council Member Dunbar introduced the discussion to hear what is currently being proposed by the County regarding land contracts, and added the discussion will include what the City can require.

Mr. Schertzing clarified that the County is a non-mandatory recording State, therefore a land contract has no standard form or even has to be recorded. If it is recorded, it is just the memorandum. The main issue with land contracts is that you cannot find out who has one because they are not required to be recorded. A draft Ingham County Land Contract Recording Ordinance was distributed. This would require the actual land contract be recorded at the Register of Deeds. In 2014 there were 509 recorded however there is no way to know the actual total. Out of those 509, 333 were in the City. Currently the draft ordinance is in a limited status, with the last meeting being a community meeting in September. Plans were to go to the Board of Commissioners. Council Member Wood asked for an opinion on if the City required the principal property tax exemption with Land Contracts. Mr. Schertzing stated it was a small piece to large problem. Legal Services has put together a Q&A the Treasurer's office is refining

to have out on the website. This is an opportunity for education. Ms. Cobe added that the buyers are the uneducated and gave examples seen at the Register.

Council Member Dunbar asked to see the Q & A that Legal Services was working on, and the Committee can discuss distribution locations. Ms. Cobe was also asked to provide the Committee with a sample of a land contract.

Ms. Powers informed the Committee on community housing counseling, and agreed that 40% of the housing issues are a result of bad land contracts.

Council Member Houghton stated the Committee needs to locate all points of contact for educating people including VITA, and the financial empowerment center. Council Member Brown Clarke encouraged the Committee to not create on items that blanket 80% of those owners/sellers doing well, but focus on the percentage that are doing it wrong. Spend more effort around the problematic. Council Member Wood suggesting adding churches, check cashing stores, and welfare centers to the list for places of distribution. Council Member Wood also suggested bringing a judge into a future Committee meeting to discuss what they are limited in doing, and what the City can do to help. It was noted that East Lansing has landlord court, which the City of Lansing does not have.

Mr. Williams reminded the Committee that at the last meeting Mr. Addiss stated he only records 50% of his land contracts because he can recover property quicker if he doesn't. Mr. Williams concluded that he has never seen a pamphlet that explains what land contracts are.

Council Member Dunbar asked Ms. Cobe if when the seller records the document if they can request a copy for the buyer, and Ms. Cobe confirmed it can be done for a fee, however the majority of sellers do not have the buyers with them when they come into record.

Mr. Schertzing offered to provide the pamphlet that Legal Services is working on to the City for input sometime this week.

Council Member Brown Clarke asked for forms of the media to be invited to the Committee meetings for assistance and input in providing the information to the public as a public service.

The group held discussions on reinvestments into the properties when they are demolished, the "tiny house" movement, and some voiced concerns with apartments being built instead of houses in the Lansing area.

Council Member Dunbar noted she would invite Judge Alderson the next meeting to discuss what happens at the courts and what Council can do to assist.

Mr. Sanford included information on the land contracts that the public needs to be aware that if they are on housing assistance and sign a land contract they lose their assistance. In addition they no longer will get required rental inspections because they are no longer tenants but home owners.

Council Member Dunbar also suggested having the assessing department at the next meeting also for review of what happens at their counter. A mechanism needs to be created to make sure contracts are recorded when transfer affidavits are recorded at assessing.

Council Member Houghton and Brown Clarke left the meeting at 9:49 a.m.

**Meeting Date Schedule**

The next meeting was set for January 14, 2016 at 8:30 a.m.

**ADJOURN**

Adjourn at 9:53 a.m.

Submitted by,

Sherrie Boak, Recording Secretary

Lansing City Council

Approved by the Committee on \_\_\_\_\_



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UNDERSTANDING  
LAND CONTRACTS:  
A GUIDE FOR BUYERS

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The purpose of this guidebook is to provide buyers and potential buyers of land contract properties with information about their rights and responsibilities.

Signing a land contract is a serious commitment. It is important to understand the process.

This guidebook is just that—a guide—it is not a substitute for an attorney or other professional assistance. For more information, contact one of these organizations:

Housing Counseling

Center for Financial Health  
3815 W. St. Joe, Suite 200  
Lansing, MI 48917  
Phone: 517-708-2874

Web: [www.centerforfinancialhealth.org](http://www.centerforfinancialhealth.org)

Financial Counseling

Financial Empowerment Center  
1301 Rensen St.  
Lansing, MI 48910  
Phone: 517-393-1722

Web: [www.lansingmi.gov/OFE](http://www.lansingmi.gov/OFE)

Legal Counsel

Legal Services of South Central Michigan  
3490 Belle Chase Way, Suite 50  
Lansing, MI 48911  
Phone: 517-394-3121  
Web: [www.lsscm.org](http://www.lsscm.org)

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## WHAT IS A LAND CONTRACT?

A land contract is an agreement for the sale of real estate paid in installments to the seller. Typically, the buyer gets possession of the land and the seller retains legal title until the purchase price is fully paid.

## DEFINITIONS

If you've signed a land contract (or are considering signing a land contract), it's important you understand the key terms. Here are some definitions of some important terms.

**LAND CONTRACT:** A land contract is an agreement to sell an interest in property where (a) the purchase price is paid in installments, and (b) the seller keeps the legal title until the buyer makes the final installment payment.

**VENDEE:** The buyer. We will use the term "buyer" in this guidebook, but other documents may use the term "vendee" instead.

**VENDOR:** The seller. We will use the term "seller" in this guidebook, but other documents may use the term "vendor" instead.

**DEED:** A written document by which one person(s) transfers an interest in land to another person(s). The two primary deeds are *quit claim* and *warranty*. With a ***quit claim deed***, the seller (or "grantor") transfers (and "quits") whatever interest they have in the land to the buyer (or "grantee"). With a ***warranty deed***, the seller/grantor guarantees good title to the property. To be fully effective, a deed must be recorded with the county Register of Deeds.

**TITLE:** Title is an ownership interest in the property. In a land contract, the seller keeps legal title to the property until the buyer makes the final payment. Until making the final payment, the buyer has "equitable title", which usually includes the right to use and occupy the land, and transfer that interest, subject to the seller's interest.

**FORECLOSURE AND FORFEITURE:** These are two different types of processes in court where the land contract seller tries to take the property back from the buyer. A seller can only do this if the buyer defaults on the land contract. The differences between ***foreclosure*** and ***forfeiture*** are discussed in-depth later in this guide.

**MEMORANDUM OF LAND CONTRACT:** A document that explains a land contract exists between the parties, but it does not include the specific terms, such as where you should make payments or whether there are prepayment penalties. To keep the terms private, some people record a memorandum of land contract with the county Register of Deeds instead of the entire land contract.

**BALLOON PAYMENT:** A payment made on a land contract or a loan that is higher than the ones before it. It is done at the end of the period. It pays what is left after the last installment payment.

## WHY MIGHT I CONSIDER A LAND CONTRACT?

Many people consider a land contract as an alternative to renting. Land contracts can be a path to homeownership that doesn't require going through a traditional lender. The monthly payment can often be comparable to what you pay in rent. There are also downsides to purchasing on land contract, such as potentially high interest rates and repair issues. This section discusses why you might consider a land contract, along with the pros and cons.

## "PROS" TO A LAND CONTRACT

### A PATH TO HOMEOWNERSHIP

A land contract may provide a way for someone who can't or doesn't want to get a mortgage loan to purchase a home. Instead of the buyer getting a loan from a bank or credit union, the seller finances the sale.

### LITTLE (OR NO) DOWN PAYMENT

A traditional mortgage loan can require as much as a 20% down payment, meaning a buyer needs to save up for a long time before purchasing a home. Land contracts often require little to no down payment. ***It is possible to qualify for a traditional mortgage loan with a small down payment. Contact the Center for Financial Health or Financial Empowerment Center for more information on down payment assistance programs that can get you into a traditional mortgage loan.***



## "CONS" TO A LAND CONTRACT

Does a land contract sound too good to be true? Sometimes it is! Keep reading to learn why.

### MAINTENANCE AND "AS IS" PROPERTIES

In a land contract, there is no calling a landlord to fix the roof! The maintenance of the property is the responsibility of the buyer. This can mean expensive repairs are

your responsibility. Land contract purchases are “as is.” This means that unless the seller agrees otherwise in writing, the buyer is generally on the hook for any problems with the property that they later discover. Some dishonest sellers may verbally promise to make repairs to convince a buyer to purchase a property, only to fail to follow through after the land contract is signed. Even in these situations it can be difficult for buyers to force the sellers to make these repairs.

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#### PROPERTY TAXES

Unlike renting, where the property taxes are the responsibility of a landlord, the seller and buyer need to work out who pays for the property taxes. The land contract should spell out how property taxes are supposed to be paid. While a land contract can be negotiated and decided differently, the buyer is typically responsible for payment of property taxes after the closing.

To see how much property taxes might cost, go to your local treasurer’s website and search by property address. For Ingham County, go to <http://tinyurl.com/InghamTax>

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#### FORECLOSURE, FORFEITURE, AND TITLE ISSUES

Under some land contracts, the seller is allowed to have a mortgage on the property. In other situations, the buyer may be purchasing the property on a land contract and re-selling it to you. If the seller falls behind on his mortgage or land contract, he may lose the house to foreclosure or forfeiture. If that happens, you may also lose any interest in the home—even if you were paying on time.

Even if there is no mortgage when you buy the property, the land contract may allow the seller can re-mortgage the property even after he or she sells it to you. This can happen without your knowledge, depending on the terms of the land contract.

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#### LIMITED REGULATORY PROTECTIONS

Land contracts are not regulated as heavily as traditional mortgage loans. Traditional mortgage loans often have governmental regulations that protect buyers. For example, a bank or credit union may be required to consider you for a loan modification if you have a financial setback, disclose how your interest rate works, and provide you with regular monthly statements. Most land contracts are not covered by these governmental protections.

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#### HARD TO GET FINANCING IN THE FUTURE

Land contract payments generally don’t help you “build credit.” When you “build credit,” it’s because your creditors are telling the three major credit reporting companies about your line of credit and payment history. Banks, credit unions, and credit card companies use the records from the credit reporting companies to

determine whether to give you a loan or a credit card. Because your land contract seller will not have told the credit reporting companies about your payments, you won't have "built credit."

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#### POTENTIALLY HIGH INTEREST RATES

Land contract sellers often set interest rates much higher than traditional mortgage lenders. As a result, you may end up paying more over time than you would under a traditional mortgage loan. Keep in mind the maximum legal interest rate for a land contract is 11%.

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#### VAGUE TERMS

Traditional mortgages are often lengthy legal documents—but they tend to include the rights and responsibilities of both parties in all circumstances. Land contracts—especially those written by non-lawyers—often fail to include important information such as who is responsible for property taxes. Predatory sellers can use these vague or unclear terms to take advantage of buyers.

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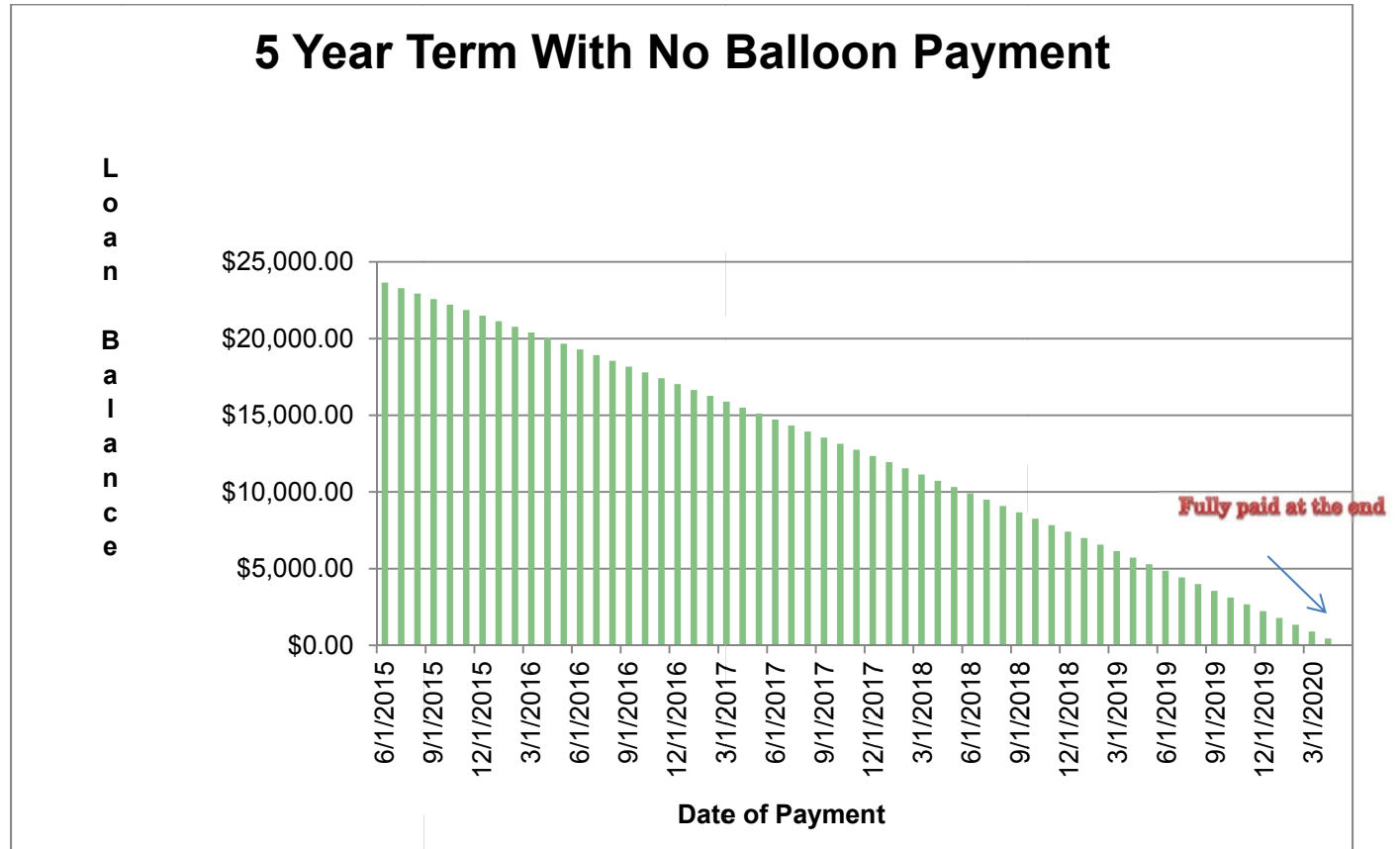
#### BALLOON PAYMENTS

Land contracts often require balloon payments. Normally, your monthly payment will be exactly what's needed to pay off the contract by the end of its term. With a balloon payment, your monthly payments will be smaller than needed to finish paying at the end of the term. You will have to make a large payment – the balloon – to pay off the contract and avoid a default.

Sellers use a balloon payment provision to shorten the contract length and attract buyers with an apparently lower monthly payment. Most buyers need to refinance the land contract to make a balloon payment. If the buyer can't make a balloon payment, the seller can declare a default and pursue forfeiture or foreclosure

### EXAMPLE OF A LAND CONTRACT WITHOUT A BALLOON PAYMENT:

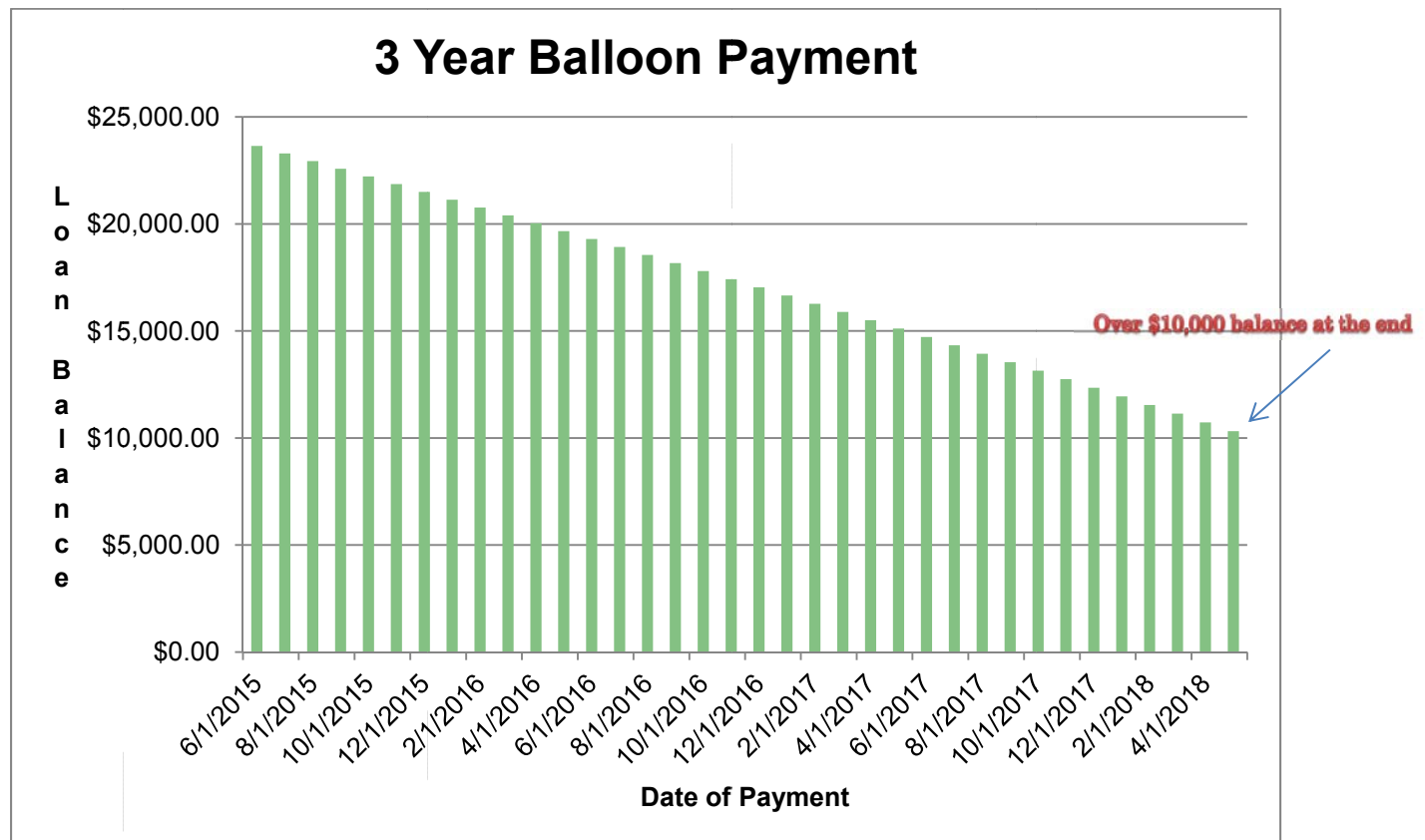
Buyer purchases a house on land contract for \$25,000 with a down payment of \$1000, an interest rate of 5%, monthly payments of \$452.91, and a term of 5 years. At the end of five years, the buyer has completely paid off the land contract.





### EXAMPLE OF A LAND CONTRACT WITH A BALLOON PAYMENT:

Buyer purchases a house on land contract for \$25,000 with a down payment of \$1000, an interest rate of 5%, monthly payments of \$452.91, and a term of 3 years. The buyer makes monthly payments of \$452.91 every month for 3 years. At the end of 3 years, the buyer still owes \$10,323.58 on the land contract. Unless the buyer can pay off the full amount or get a loan for the balance, the seller can file foreclosure or forfeiture suit.



While land contracts come in a variety of forms, there are certain things that should be included in all land contracts to make sure both parties are in agreement concerning their rights and responsibilities. These items include:

- ✓ All payment terms including the sale price, the down payment, the remaining balance, the amount of monthly installments, the interest rate, the number of years of the land contract, and any balloon payment and its requirements.
- ✓ Requirement that the seller provide the buyer with evidence of a policy of title insurance insuring the buyer title to the property. This way all parties will know what interest the seller has to give to the buyer.
- ✓ Requirement that the seller deliver a warranty deed to the buyer upon the buyer's performance of the terms of the land contract, and that the deed be signed at closing and held in escrow until the buyer makes the final payment.
- ✓ Requirement that the buyer maintain the property in good condition, with an allowance for "reasonable wear and tear."
- ✓ Description of what changes a buyer can make to the property, such as building additions, tearing down a garage or shed, or making other structural changes to the property.
- ✓ Whether either party can transfer their interest in the property.
- ✓ Whether the seller can place mortgages on the property.
- ✓ Who is responsible for paying recording fees and transfer taxes.
- ✓ Who is responsible for paying property taxes, special assessments, and insurance.
- ✓ Who is responsible for recording the land contract with the Register of Deeds.
- ✓ What legal remedies the seller has if the buyer defaults.

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#### WHAT ARE SOME RED FLAGS?

Land contracts are not a "one size fits all" situation, but as a buyer, some items can be "red flags" or warning signs. Here are a few examples:

- 🚩 There is a large balloon payment at the end. If the land contract requires that you come up with a large sum of money at the end, think about where this money is going to come from. Will you be able to take out a loan? If so,

maybe you should consider a traditional mortgage loan to purchase the house instead of a land contract.

- 📌 The seller promises to make repairs, but does not put it in writing. Once the land contract is signed, it can be difficult—both from a legal perspective and a practical perspective—to force the seller to make repairs.
- 📌 The seller agrees to provide a Quit Claim Deed instead of a Warranty Deed. A Warranty Deed provides a buyer more protection, because the seller is making a guarantee of its good title. A Quit Claim Deed does not guarantee the seller actually has the right to sell the property; it only means they have “quit” their claim to it, or will not try and assert the land is theirs.
- 📌 No one is allowed to record the land contract or memorandum of land contract with the Register of Deeds. The best and proper way to let everyone know you are buying the property is to record the land contract (or a memorandum of it) with the county Register of Deeds.
- 📌 There are prepayment penalties. Prepayment penalties occur when the buyer makes a payment larger than the planned installment payment. A provision that says there will be a penalty if the buyer pays more than the monthly payment or pays off the contract before the term ends almost never benefits a buyer. To ensure there are no penalties, a good land contract has a section that states “the buyer may pay the monthly installment or more at the buyer’s option.” This language is clear enough to show the buyer has the option to make a larger payment without a penalty.
- 📌 The seller has a mortgage on the property (or can take one out in the future). If the seller falls behind on their mortgage payments, the house can be lost to foreclosure, even if the buyer is making their payments on time. If the contract says the seller can take out a mortgage on the property after the contract begins, the buyer should avoid a provision that says this mortgage will have priority over the buyer’s interest (these provisions are known as “subordination clauses”).
- 📌 The seller is responsible for taxes, assessments, and insurance. While the idea of these items being included in a monthly payment is appealing, if the seller fails to make a payment, the buyer can be left unprotected. By being in charge of these payments, the buyer can know everything is being paid in full and on time.

## WHAT IF SOMETHING GOES WRONG?

Land contracts, for any number of reasons, sometimes do not work out for the parties. Each party has a set of remedies. For example, either party can sue for breach of contract. Some remedies, however, are specific to buyers or sellers.

#### REMEDIES FOR A BUYER

Generally, upon a buyer's fulfillment of the land contract, the seller should give the buyer the required deed conveying the property free of liens created by the seller. A seller who fails to provide the required deed may be in breach of the contract. If the seller is unwilling or unable to give the required deed, the buyer may have various options, including legal action for: 1) Specific performance of the land contract (including a court order directing the seller to give the required deed); 2) Quiet title; 3) Cancellation of the land contract (seeking the return of the money paid by the buyer in exchange for all of the buyer's rights in the property); 4) Money damages.

#### REMEDIES FOR A SELLER

Like a buyer, a seller can sue for breach of contract if the buyer breaches. The seller may also foreclose on the buyer or have the buyer forfeit the property. The differences between foreclosure and forfeiture are located below.

| Forfeiture  | Foreclosure   |
|---|---|
| Moves through the court process quickly   | Moves through the court process slowly  |
| Buyer can keep the property by making any past due payments                     | Buyer may only keep the property by paying the entire balance owed  |
| If buyer loses property, they are not responsible for the remaining balance     | If buyer loses the property, they may be responsible for the difference between what the property sells for at Sheriff's Sale and what they owe on the property |
| Seller can only do this if the land contract specifically allows for forfeiture | Seller can do this regardless of whether the land contract specifically discusses foreclosure   |

#### WHAT TO DO WHEN CLOSING ON A LAND CONTRACT

When closing on a land contract, there's more to it than simply signing the contract and walking away. Here are some steps the parties need to take when closing:

- ✓ If there is an underlying land contract or mortgage, have the seller provide written confirmation that it is current and the amount of the balance.
- ✓ Exchange Social Security or Tax ID numbers for income tax purposes.

- ✓ The buyer should fill out a Principal Residence Exemption Affidavit (if this is your principal residence). A Principal Residence Exemption Affidavit will ensure you pay the lowest possible property taxes.
- ✓ The buyer should fill out a Property Transfer Affidavit. After closing, deliver it to the local taxing unit (generally the city or township where the property is located). A Property Transfer Affidavit puts the local taxing unit on notice that you now have an interest in the property.

## WHAT ARE SOME ALTERNATIVES TO LAND CONTRACTS?

A land contract isn't right for everyone. The two main alternatives are a traditional rental and a traditional mortgage.

### TRADITIONAL RENTAL

Unlike a land contract, a traditional rental does not result in the ownership of the property at the end of the term. However, the payments are usually less expensive, and renters have some rights land contract buyers don't. For example, a landlord is required to keep the rental property in good repair. With a land contract, those responsibilities fall to the buyer. Unexpected repairs, like a broken hot water heater, can eat up a budget for months. With a rental, the tenant does not need to budget for these repairs.

### TRADITIONAL MORTGAGE

A traditional mortgage is a loan given by the bank so a buyer can buy the property. The loan is "secured" by the property, which means if the buyer does not make payments, the lender has a right to take the property.

Mortgages are more secure and more regulated than land contracts. They often have substantially lower interest rates than land contracts. There are a number of down payment assistance programs available, such as through MSHDA's MI First Home. For more information on traditional mortgages, talk to the Center for Financial Health or the Financial Empowerment Center.

## FINAL TIPS

Here are some tips that, while not necessary, will help protect your land contract investment.

### TALK TO A LAWYER

A lawyer may spot something you did not notice or understand. This can save you time, frustration, and money. Contact Legal Services of South Central Michigan for more information.

## HAVE A PROFESSIONAL HOME INSPECTION

Paying a fee to a home inspector can save you significant money down the line. If there is a defect in the property, no matter how major or minor, once you sign the land contract, the seller generally does not have a responsibility to fix or pay for the defect. Unless the seller makes some warranty about the condition of the property, property sold on land contract is “as is.” An investment in the inspection could not only save money, but even lives in cases of structural damage. Moreover, if an inspection reveals problems you didn’t know about, you can use it to negotiate a lower price.

## SURVEY THE LAND

Before signing, take the time to protect your investment by making sure you own what you have been paying for. A land survey can cost between \$200-\$800, depending on the size of the property, but may defend against third parties from making a claim later. Surveyors often find defects that may cause renegotiation of price.

## DON'T RUSH

Things may arise or become clearer after a few hours of mulling over the land contract. Take the time to think about what you are signing, even if you are completely sure it is what you want.

## BE REALISTIC ABOUT YOUR FINANCES

People may sometimes be overly optimistic about the time and money they can afford to put into a land contract. Do you have enough money for the installments down the road? Has either party considered the cost of taxes, repairs and other costs that arise from homeownership? What are your plans for the property after the contract is complete?

## READ THE CONTRACT

Read the contract several times. Be aware of what it says and what your responsibilities are. Failure to know or understand the contract’s terms is rarely an excuse if there is legal action.

## WHERE CAN I GO FOR HELP?

Housing Counseling  
Center for Financial Health  
3815 W. St. Joe, Suite 200  
Lansing, MI 48917  
Phone: 517-708-2874  
Web: [www.centerforfinancialhealth.org](http://www.centerforfinancialhealth.org)

Financial Counseling  
Financial Empowerment Center  
1301 Rensen St.  
Lansing, MI 48910  
Phone: 517-393-1722  
Web: [www.lansingmi.gov/OFE](http://www.lansingmi.gov/OFE)

Legal Counsel  
Legal Services of South Central Michigan  
3490 Belle Chase Way, Suite 50  
Lansing, MI 48911  
Phone: 517-394-3121  
Web: [www.lsscm.org](http://www.lsscm.org)

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## Protect Yourself

**Land contracts are serious commitments—understand your rights**

A land contract is an agreement for the sale of real estate paid in installments to the seller.

Typically, the buyer gets possession of the land and the seller retains legal title until the purchase price is fully paid.

Many people consider a land contract as an alternative to renting. Land contracts can be a path to homeownership that doesn't require going through a traditional lender. The monthly payment can often be comparable to what you pay in rent. There are also downsides to purchasing on land contract, such as potentially high interest rates and repair issues.



## Where can I go for more information?

**There is free help waiting for you. For more information, including an in-depth guidebook contact:**

Center for Financial Health  
(housing counseling)

3815 W. St. Joe, Suite 200

Lansing, MI 48917

Phone: 517-708-2874

Web:

[www.centerforfinancialhealth.org](http://www.centerforfinancialhealth.org)

Financial Empowerment Center  
(financial counseling)

1301 Rensen St.

Lansing, MI 48910

Phone: 517-393-1722

Web: [www.lansingmi.gov/OFE](http://www.lansingmi.gov/OFE)

Legal Services of South Central  
Michigan  
(legal counsel)

3490 Belle Chase Way, Suite 50

Lansing, MI 48911

Phone: 517-394-3121

Web: [www.lsscm.org](http://www.lsscm.org)

# Land Contracts

Information for buyers  
and potential buyers



Prepared by Legal Services of South  
Central Michigan





## FAQs

# Before you sign on the dotted line

### **If you are considering a land contract, are you really considering all your options?**

You may feel that a traditional mortgage is out of your financial grasp—but that might not be true. A traditional mortgage can often give you greater protections, including the right to be reviewed for a loan modification if you fall on hard times, monthly statements showing the progress you're making on paying down your mortgage, and explain how your interest rate works in plain English. Call the Center for Financial Health at 517-708-2874 to schedule an appointment to find out if you're "mortgage ready."

### **Has the seller promised to make repairs after you sign?**

Some dishonest sellers will verbally promise to make repairs in order to convince a buyer to sign a land contract. Unfortunately, it is often impossible to force a seller to make these repairs if there is nothing in writing.

### **Do you know what you're buying?**

A professional home inspector can let you know what kind of shape the property is in before you buy it. A home inspection can alert you to expensive problems, such as those with your electrical and plumbing systems.

### **Do you know what you're signing?**

Land contracts can be complex legal documents. Having an attorney review your land contract before you sign can save you headaches and misunderstandings.

*Get more information by picking up a copy of "Land Contracts: A Buyer's Guide" from any of the organizations listed on the back of this pamphlet.*

### **No land contract is "one size fits all," but land contracts should at least include this basic information:**

All payment terms including the sale price, monthly installments, interest rate, term, and any balloon payment.

Whether either party can transfer their interest in the property.

Whether the seller can place mortgages on the property.

Who is responsible for paying recording fees and transfer taxes.

Who is responsible for paying property taxes, special assessments, and insurance.

Who is responsible for recording the land contract with the Register of Deeds.

What legal remedies the seller has if the buyer defaults.

*Have a lawyer review your land contract before you sign. Contact Legal Services of South Central Michigan at 517-394-3121 for more information.*